



Nonprofit Executive Breakfast Seminar

City Club of Washington

July 12, 2007

Welcome



- Sponsors
 - Argy, Wiltse & Robinson, P.C.
 - Alliance Bank of Virginia
 - Drohan Management Group
- Presenters
 - Jeff Schragg
 - Tom Tepper
 - Jeff Tenenbaum

Seminar Agenda

- 8:00 am Welcome
- 8:15 am Sox Best Practices and New Developments
- 9:00 am Panel Discussion
- 9:30 am Questions and Answers

Sox Best Practices and New Developments

- Quick Sox Review
 - Public Company Accounting Oversight Board Created
 - Requirements for Audit Committees
 - Members must be independent
 - One member must be a “financial expert”
 - Committee is directly responsible for hiring, setting compensation, and overseeing auditor activities
 - Committee must approve non-attest services of audit firm

Sox Best Practices and New Developments

- Quick Sox Review
 - Responsibilities for Auditors
 - Lead and reviewing partner of audit firm must rotate every five years
 - Prohibited from providing certain non-attest services
 - Audit Committee pre-approval required before providing other non-attest services (e.g., tax preparation)
 - Must disclose all critical accounting polices and practices to the audit committee
 - Requires Certification of Financial Statements by CEO and CFO
 - Loans to Directors or Executives Prohibited

Sox Best Practices and New Developments

- Quick Sox Review
 - Internal Control Disclosures
 - Section 404 requires management to establish and maintain adequate internal controls for financial reporting and assess their effectiveness
 - Auditor must attest to and report on the assessment made by management
 - Whistleblower Protections (Required for Nonprofit Organizations)
 - Document Destruction (Required for Nonprofit Organizations)
 - Federal crime to alter, falsify, or destroy documents subject to an official proceeding
 - Requires implementation and monitoring of document destruction policies

Best Practices for Not-For-Profits

- Set the Right Tone at the Top
 - CEO and Board Chair Should Have a Strong, Open Relationship
 - Board Should Go Into Executive Session on a Regular Basis
- Adopt a Conflict of Interest Policy
- Adopt a Whistleblower Policy
- Perform an Annual Review of the Board by its Members

Best Practices for Not-For-Profits

- Hold Annual Board Orientation That Includes Training on Fiduciary Responsibilities and Finance
- Actively Engage Your Auditor
 - Audit Committee Should Have an Understanding of the Audit Workplan
 - Ensure Auditor is Testing Key Procedures for Executives (e.g., Leave, Compensation Ties to Board Minutes, etc.)
 - Confirm There is a Concurring Partner Review
 - Remember, “Character Counts, Not the Lowest Cost”

Best Practices for Not-For-Profits

- Internal Controls
 - Operational
 - Financial
 - Compliance
 - Strategic
- Assess Your Internal Controls Maturity as Part of Your Overall Business Strategy
 - Unreliable
 - Informal
 - Standardized
 - Monitored
 - Optimized

IRS Good Governance Recommendations

- Good Governance Practices for 501(3) Organizations Posted on irs.gov
(Changed to “Draft” After Comments From Practitioners)
 - IRS Strongly Recommends That Organizations Review and Consider Adopting Nine Recommendations
 - 1) Adopt a Mission Statement
 - 2) Adopt a Code of Ethics/Whistleblower Policy
 - 3) Exercise Due Diligence
 - 4) Require a Duty of Loyalty/Conflict of Interest Policy
 - 5) Ensure Transparency
 - 6) Monitor Fundraising Policies
 - 7) Conduct an Annual Financial Audit
 - 8) Monitor Compensation Practices
 - 9) Adopt a Document Retention Policy

Governance Questions on Draft Form 990

- Draft Form 990, Part III, Statements Regarding Governance, Management, and Financial Reporting
 - Number of members of governing body?
 - Number of independent members?
 - Written conflict of interest policy?
 - Written whistleblower policy?
 - Written document retention policy?
 - Contemporaneously written minutes?
 - Control over local chapters, branches or affiliates?
 - Who prepares the financial statements?
 - Audit, Review, or Compilation by an independent accountant?
 - Audit Committee?
 - Form 990 Reviewed by Board before filing?
 - Public availability of documents?

Accounting for Uncertainty in Income Taxes

- FIN 48
 - Requires Recording of Income Tax Liability
 - Uncertainty regarding taxability of item(s) of income, “more likely than not” standard, (i.e. greater than 50% certainty)
 - Accrued liability must include corresponding interest and penalties
 - Extensive footnote disclosures required
 - Fin 48 *does not* apply to property tax, sales tax, employment taxes, excise tax, or intermediate sanctions
 - Fin 48 *does* apply to Federal and State Income Tax
 - Unrelated Business Income
 - Potential loss of exempt status due to private inurement, political campaign intervention, excess lobbying, failing to further exempt purpose, etc.



Questions & Answers

Jeff Schragg, Partner - Argy, Wiltse & Robinson, P.C.

**Tom Tepper, Vice President, Financial Planning & Analysis –
National Geographic Society**

Jeff Tenenbaum, Partner – Venable LLP